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China's energy diplomacy towards Central Asia and the implications on its "belt and road initiative"

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**China’s Energy Diplomacy Towards Central Asia**  
**and the Implications on Its “Belt and Road Initiative”**

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## Abstract

China's oil investment in Central Asia from the late 1990s was not driven by energy needs or geopolitical ambitions, like many assumed. The real concern was the safety of its western boundary, while energy was used as an instrument to forge political ties with its neighbours. However, China has become one of the key geopolitical players in Central Asia after more than 20 years engagement, and many observers are keen to find out why has Beijing failed to escape the grand games while focusing on energy diplomacy? And, what is the implications of China's new status in Central Asia on its Belt and Road Initiative (BRI)?

This article attempts to answer the questions via reviewing China's energy diplomacy towards Central Asia, from the lens of geopolitics. Focusing on China's dealing with Kazakhstan and Turkmenistan, as well as the Russian factor, the research has revealed the main reasons that led China into the grand games: the entangling of politics and China's energy engagements; the establishment of the Shanghai Cooperation Organization; and the changes of the pipeline map. China's geopolitical gains have mainly made at the cost of Russia, though the latter chose to accept Beijing's greater presence in Central Asia against the changed circumstances.

The launch of the BRI scheme has amplified China's geopolitical significance in Central Asia, but also triggered various criticisms, including the debt traps and governance-related issues. China's dealing with the Muslims in Xinjiang was also a point of disagreement. Beijing may need to revisit its pragmatic featured diplomacy, and to take a more liberal approach to accommodate different political perspectives. With greater power potential, Beijing should bear more responsibilities to ensure peace and stability in Central Asia, together with other powers, not only for the sake of BRI's success, but also for the interest of the mankind.

**Keywords:** China, Energy diplomacy, Central Asia, Geopolitics, Belt and Road Initiative.

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# 1. Introduction

The Silk Road is a well-known and legendary network of ancient trade routes in Chinese history, with Central Asia – the so-called “Western Area” (*xi yu*) – being an indispensable territory. Despite the importance of Central Asia in the Silk Road, China has had little direct involvement in the region until the post-Soviet era. In the 1990s China used energy as an instrument to enter Central Asia to ensure the security of its Western border (Andrew-Speed, Liao & Dannreuther, 2002, pp. 58-61), making energy diplomacy effective in its foreign policy agenda. After more than 20 years, Beijing has built four cross-border pipelines from Kazakhstan and Turkmenistan (plus one under construction) and has also become an influential player in the region. China’s trade with Central Asia has grown remarkably from only \$1 billion (bn) in 2000 to \$30bn by 2017 (Oseledko, 2018, April 5). After the proposal by Chinese President Xi Jinping in 2013, to build a “Silk Road Economic Belt” and a “Maritime Silk Road”, Beijing’s dealings in the region became more dynamic and diversified. Between March 2015 and September 2018, China signed about 70 deals with Kazakhstan worth more than \$33bn, concerning a wide range of sectors, such as energy, mining, chemical, mechanical manufacturing, agriculture and infrastructure (*Reuters*, 2017; Altynsarina, 2018, September 27). China has also been the top importer of Turkmen natural gas since 2016, after Russia and Iran cut off all gas imports from Turkmenistan (Lelyveld, 2018).

China’s growing influence has triggered increasing concerns not only over the region’s energy supply routes, but also regarding the great power rivalries within the region. This is especially evident with China’s Belt and Road Initiative (BRI) scheme. A significant amount of literature on China and Central Asia relations has viewed China as an “emerging superpower” in the region (Bohr, 2004; Swanstrom, 2007; Šír & Horák, 2008; Petersen, 2011), and has had geopolitical implications to the region and beyond (Cooley, 2008; Fingar, 2016; Sternberg, Ahearn & McConnell, 2017; Chen & Fazilov, 2018). This article argues that Beijing’s entry to Central Asia was not aimed to fill the power vacuum left by the former Soviet Union, but was to ensure the security of China’s western borders. However, it is obvious that Beijing has become a major player in Central Asia geopolitically and economically, after more than 20 years of engagement with the region. The main question to be asked is that why has Beijing failed to escape the grand games in the Eurasian landmass while focusing on energy diplomacy? And, what is the implications of China’s new status in Central Asia on its Belt and Road Initiative (BRI)?

This article attempts to answer the two questions by reviewing China's energy diplomacy towards Central Asia from the 1990s, in particular with Kazakhstan and Turkmenistan. The key argument is that despite China's lack of interest in geopolitical games in Central Asia, its energy diplomacy over the past 20 years has made Beijing one of the major geopolitical players in the region, against its initial intention. This has not only affected the Sino-Russian relations in Central Asia, but is also crucial to the destiny of the BRI aspiration. The discussion below comprises of five sections. Section 2 sets the context of the geopolitical significance of Central Asia and the old power paradigms China encountered in the wake of the Cold War. Sections 3 and 4 will investigate China's energy cooperation with Kazakhstan and Turkmenistan, respectively, to show the role energy played in Beijing's dealing with the two countries, as well as the interactions with Russia. Session 5 looks at China's policy agenda under the BRI era, to demonstrate the challenges facing Beijing beyond its energy diplomacy, before drawing a conclusion in the final section.

## 2. China, Central Asia and Geopolitics: The Context

Central Asia has always been a hot spot in the eyes of geopolitical theorists due to its strategic geographic significance. The region was called by Halford Mackinder (1962) as the "Heartland", of which whoever ruled it would be able to command "the World-Island" and eventually to command "the World". Since Central Asia became a part of Russia from the late 19<sup>th</sup> Century, Moscow remained the only governor of the region, which made the United States feel that it was in a disadvantageous position during the Cold War era. The United States tried everything to balance against the "Heartland superpower" – the former Soviet Union – including nuclear arms races (Gray, 1977), but was unable to challenge Russia's dominance of Central Asia even after the Soviet disintegration in 1991. Russia wanted to keep Central Asia in its "sphere of influence" on a wide range of aspects, from strategic, economic, security, to cultural and ethnic bonds. These states also longed for Russia's enduring support on economic and security grounds until Boris Yeltsin's Presidency (1991-99), who did not manage well the relationship with the newly independent republics (Sun, 2001, pp. 239-241).

In the eye of Zbigniew Brzezinski, the fall of the USSR offered a wonderful opportunity for the U.S. projecting its power to Central Asia, in order to demonstrate and maintain its status "as the

sole and, indeed, the first truly global power”. Brzezinski also held that “for America, the chief geopolitical prize is Eurasia ... America’s global primacy is directly dependent on how long and how effectively its preponderance on the Eurasian continent is sustained.” (Brzezinski, 1997, p. 30) However, the U.S. administration under George H. W. Bush did not make Central Asia as top priority due to its “Russia First” policy, which was aimed to ensure Russia’s successful transformation from communism to capitalism. Therefore, apart from a visit paid by the U.S. Secretary of the State, James A. Baker, in February 1992, no U.S. officials visited Central Asia until the new century, and U.S. investment and financial assistance were also limited throughout the 1990s. Only after the “9.11” terrorist attacks, did Central Asia become a pivot territory for America’s anti-terrorism strategy, and the U.S. was allowed to set up airbases in Kyrgyzstan and Uzbekistan, with Russia’s consent. On 12 March 2002, the U.S. and Uzbekistan, again, signed a Declaration on Strategic Partnership and Cooperation Framework (Zhao, 2008, pp. 327-332; Finn, 2005), posing challenges to Russia’s overall dominance in the region. What enabled Russia to win back the authoritarian regimes of its former Republics was the Colour Revolutions – the Rose Revolution in Georgia in 2003, the Orange Revolution in Ukraine in 2004, and the Tulip Revolution in Kyrgyzstan in 2005 – where the U.S. was suspected of having a role behind the uprisings (Nichol, 2013, pp. 7-9; Zhao, 2008, pp. 230-35).

In contrast to the U.S.-Russian competitions, Beijing had little interest in, and connection with, Central Asia prior to the 1990s; together with its limited capacity at the time, geopolitics was barely a factor in its initial dealing with the region (Zhao, 2008, pp. 26-33). The Soviet breakdown did remove a principal security threat for China, but also posed new challenges on three aspects. The first was the unsettled boundary. China shared more than 3,000 kilometres (km) of borderline with three out of five Central Asian states – Kazakhstan (1,700km), Kirghizstan (1,000km), and Tajikistan (400km). Negotiations over the Sino-Soviet western boundary were undergoing during the 1980s, but no agreement was reached prior to the Soviet collapse. Therefore, boundary delimitation was the top priority for Beijing in dealing with the newly independent Central Asian Republics (Sun, 2001, pp. 210 & 231). Secondly, due to close ethnic links between the Central Asian nations and minority groups in China’s Xinjiang Province, Islamic resurgence and pan-Turkic nationalism in Central Asia presented serious threats to China’s national unification, which were especially imperative in the early 1990s, when Muslim separatists promoted the Uighurs and Turkestan Liberation Movement in Xinjiang (Walsh, 1993). Finally, having little connection with

Central Asia, China had no effective means to engage with the new nations in the immediate post-Soviet era (Zhao 2008, pp. 54-57).

In order to guarantee the safety of China's western boundary, Beijing employed two main measures at the time. One was to initiate the "Shanghai Five Forum" to negotiate the border settlement, in April 1996, with Russia, Kazakhstan, Kyrgyzstan and Tajikistan, and a groundbreaking Treaty on Deepening Military Trust in the Border Regions was signed in the end. In June 2001, the Shanghai Cooperation Organization (SCO) was established, with Uzbekistan joining the Shanghai Five as a new member. Before long, the SCO was viewed by many as a mechanism to confront the U.S.' "strategic superiority in Central Asia" (Akiner, 2010), and it was also the starting point for China to be drawn into the "Great Games". The other measure Beijing took was to use energy to help create better political connections with the Central Asian neighbours. Some might wish to argue that energy security was the main driver behind China's initial overseas oil investment, including those in Kazakhstan, but this could not be substantiated by statistics at the time. Indeed, despite Kazakhstan's major oil producer's status today, when the China National Petroleum Corporation (CNPC) made its first oil investment there in 1997, Kazakhstan's proven oil reserves were unknown and its annual oil production was only 25.8mts (*BP*, 2007, pp. 6 & 9). China's oil imports from Kazakhstan in 1997 was 44,900 tons, accounting for merely 0.1% of the total imports. Even by 2000, oil from Kazakhstan only accounted for 1% of China's total oil imports, with 724,200 tons (Tian, 2003, p. 26 & 2005, p. 12). Therefore, it makes little sense to suggest that energy supply was the main force driving China's entry to Central Asia, though such energy cooperation did help forge closer political ties with the region. The political linkages had, in return, helped enhance Chinese NOCs' operations in the new century, when energy gained more weight in China's dealings with Central Asia, in particular with Kazakhstan and Turkmenistan. What Beijing might not foresee at the time was that with the growing influence of the Chinese NOCs and the cross-border oil and gas pipelines built, China would soon be drawn fully into the grand geopolitical games of Central Asia.

### 3. Energy and Politics in China's Cooperation with Kazakhstan

Kazakhstan was the first Central Asian country where China made oil investment. In June 1997, CNPC outbid a number of international oil majors including Texaco, Amoco and Russia's



Yuzhnimost to win the rights to develop the Uzen field (with 205mts of reserves) in Kazakhstan, at a cost of \$9.5bn. The deal included the cost of \$3.5bn on building a 2,000km oil pipeline to China, and a \$4.3bn payment for 60.3% of stake in Kazak oil company Aktobemunaigaz (AMG), who had 130mts of reserves. The high price paid by CNPC was believed by many as infeasible economically, which was worsened by the collapse of oil prices following the 1998 Asian Financial Crisis and the mismatch of the oil production (7.6mts/year) and the designed capacity of the pipeline (25mts/year) (*Petroleum Argus*, 198; Downs, 2000). Therefore, the projects did not proceed as planned until a few years later.

**3.1 CNPC’s Takeover of PetroKazakhstan and Deeper Involvement in Kashagan**

CNPC resumed operations in Kazakhstan starting 2002, together with its subsidiary CNPC-AMG, which led to a discovery of the Hope oilfield in 2005 in the eastern Pre-Caspian Basin. Between 2003 and 2004, CNPC managed to increase its share in CNPC-AMG to 85.42%, and also obtained a 50% of shares of Texaco North Buzachi Inc. located in western Kazakhstan (Parkhomchik, 2016). But the key action that enhanced CNPC’s position in Kazakhstan’s oil sector was the successful takeover of PetroKazakhstan (PetroKaz) in 2005, after two other Chinese national oil companies (NOCs) – the China National Offshore Oil Corp (CNOOC) and the China Petrochemical Corporation (Sinopec) – were blocked to purchase BG’s shares in the Kashagan project by its international partners. Discovered in July 2000, Kashagan is a supergiant oil field in the Caspian Sea with an estimated 9-13bn barrels of recoverable oil. It is also a highly challenging project given the harsh winter conditions and high levels of toxic hydrogen sulphide in the oil. In 2001, a consortium Agip KCO (Agip Kazakhstan North Caspian Operating Company), led by Eni, signed a 40-year production share agreement to operate in the field. The Agip KCO comprised of Eni (with 16.67% of stake), Total, ExxonMobil, BG, Shell (each with 16.67%), Inpex and Phillips (each with 8.33%). When BG announced selling of its shares in March 2003, CNOOC and Sinopec reached a deal with BG to jointly purchase the shares for \$1.23bn. But BG’s partners blocked the offer and absorbed the shares themselves. Since there were already three proposed routes for oil pipelines – 1) Russia to the Black Sea; 2) Turkey to the Mediterranean; and, 3) Iran to the Persian Gulf – the oil majors apparently wanted to avoid risks from additional pipeline routes, if the Chinese NOCs were to be involved (Liao, 2006, p. 44; EIU, 2003).

However, the setback did not prevent CNPC from trying to takeover Petrokaz, who was registered in Canada but had all assets in Kazakhstan, with 12 oil fields of proven reserves of 390mts and exploration licenses in 6 blocks (Liao, 2006, p. 45). In June 2005, PetroKaz announced a sale worth of estimated \$3.5bn, which attracted interests from China's CNPC and Sinopec consortium (Sinopec withdrew halfway through), and India's state-owned Oil & Natural Gas Corp (ONGC). For Chinese NOCs, winning the deal could not only boost oil production for the proposed Kazakhstan pipeline, but also serve their long-term strategic interests in Kazakhstan. On his visit to Astana in July 2005, Chinese President Hu Jintao signed an agreement with Kazakh President Nursultan Nazarbayev to develop a "strategic partnership", and it was believed that the two leaderships had probably also approved the deal (*CD*, 2005, July 4; *PE*, 2005, October 1). India was equally keen on the deal to support its boosting economy, and a delegation was sent for a two-day visit to Astana in August 2005, led by Deputy Foreign Minister Rajiv Sikri with ONGC representatives (Yermukanov, 2005). As expected, CNPC won the deal on 23 August 2005, though it was obliged to transfer 33% of the shares to Kazakhstan's state oil company KazMunaiGaz (KMG), which was done on 5 July 2006. The two also held a 50% stake each in the Shymkent refinery for joint management (CNPC in Kazakhstan; Parkhomchik, 2016). CNPC's takeover of PetroKaz was an uplifting victory for China's overseas oil operations, despite the dear cost, making CNPC the second largest oil company in Kazakhstan.

Soon after, CNPC won another the deal over the purchase of stake from the U.S. oil company ConocoPhillips (a merger between Conoco and Phillips in 2002), again, with political support from the Kazakh government. In November 2012, ConocoPhillips was reportedly agreed to sell its 8.4% stake in the Kashagan project to India's ONGC for \$5bn (*FT*, 2012, November 26). Yet Astana seemed to prefer offering the deal to the Chinese. In July 2013, KMG was asked by the government to pre-empt the ConocoPhillips stake and sold it to CNPC (Wood Mackenzie, 2013). Delighted with the largest overseas acquisition by CNPC, Chinese President Xi Jinping attended the signing ceremony on his state visit to Kazakhstan in September 2013, during which KMG and CNPC signed a sale and purchase agreement worth \$5bn over the Kashagan stake, as a part of 22 deals inked between the two countries worth of \$30bn. CNPC also agreed to pay \$3bn to help finance Kashagan's Phase 2 development from 2020, which was expected to double oil production to 370,000 bpd from 180,000 bpd in Phase 1 (2013-14) (Gordeyeva, 2013, September 7). It was also

during this visit that President Xi Jinping proposed the building of a “Silk Road Economic Belt” (SREB) in his speech at the Nazarbayev University.

**3.2 The Kazakh-China Oil Pipeline vs Russian-China Oil Pipeline**

Following the muddling M&A course in accessing Kazakhstan’s oil industry, the building of the Kazakh-Chinese oil pipeline proved a smoother process. In May 2002, construction of the 2,000km Kazakh-China oil pipeline commenced, and it took only seven years to complete from Atyrau in western Kazakhstan to Alashankou in China’s Xinjiang province via three phases (see Map 1). Phase 1 was the westernmost section, 448.8km in length, from Atyrau to Kenkiyak in Kazakhstan. The work was completed in March 2003, with a designed capacity of 5.9mts of annual oil delivery. Construction of Phase 2 began on 28 September 2004, running for 962.2km from Atasu in Kazakhstan to Alashankou in Chinese border, and further connecting to the Alashankou-Dushanzi pipeline inside China. The building work was finished on 16 December 2005 and the pipeline became operational on 29 July 2006, with a designed capacity of 10mts annually and an \$800m investment. Construction of Phase 3 was done between 11 December 2007 and 1<sup>st</sup> July 2009, ahead of schedule. It became operational in October 2009, stretching for 761km between Kenkiyak and Kumkol with an investment of \$511m. (‘CNPC in Kazakhstan’; *BBC Monitor*, 2009).

**Insert Map 1 here**

The completion of the oil pipeline has enabled Kazakhstan to double its oil exports to China from 6mts in 2009 to 12mts in 2013 (Tian, 2010 & 2014), and peaking in 2017 to 12.3mts (*Xinhua*, 2018, January 11). As the first cross-border pipeline between Central Asia and China, the Kazakh-China pipeline was not only highly significant for China’s oil security, but also altered pipeline maps in Central Asia and enabled Kazakhstan to reduce its dependence on Russia over energy export routes. In addition, CNPC also helped modernise the Shymkent oil refinery, one of the biggest in Kazakhstan (plus Pavlodar and Atyrau), between 2014 and 2018 via two stages. This had helped Kazakhstan increase its annual refining capacity from 13.8mts to 16.5mts, and also equipped the country to produce a higher quality of fuel (Euro IV–V compared to Euro II previously) and self-refined aviation fuel to supply its domestic market, instead of relying on Russian supplies (*AT*, 2017, November 19; Altynsarina, 2018, September 27).

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3 Interestingly, a closer Sino-Kazak energy cooperation seemed to have stimulated the progress of  
4 the Russian-China oil pipeline, as Moscow did not wish to lose the Chinese market. Indeed, as  
5 early as in 1998, CNPC and Yukos (a private Russian oil company) had reached an agreement to  
6 build a 2,300km oil pipeline (with a capacity of 20mts/year) between Angarsk in East Siberia and  
7 Daqing in China. Despite the alternative route proposed by Transneft (Russia's state oil pipeline  
8 company), in July 2001, from Angarsk to Nakhodka running for 3,900km (with a capacity of  
9 50mts/year), a feasibility study over the Angarsk-Daqing pipeline was signed, in September 2001,  
10 at the sixth Sino-Russian Premiers' Regular Meeting, in the presence of Yukos, Transneft and  
11 CNPC. Only after Japan showed its interest in Transneft's proposal in January 2003, Moscow  
12 changed its mind and made a new decision on 31 December 2004: to build a 4,130km Eastern  
13 Siberia-Pacific Ocean (ESPO) pipeline between Taishet to Nakhodka with an annual capacity of  
14 80mts oil delivery. In April 2005, Russia further announced that the ESPO pipeline would be built  
15 via two phases. The first was from Taishet to Skovorodino near the Chinese border (see Map 2),  
16 and would be completed by 2008 with an annual capacity of 30mts (Itoh, 2011, pp. 22-25).  
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28 **Insert Map 2 here**  
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31 Still, as Moscow was in control of the pipeline negotiations, the new decision did not make things  
32 happen for another few years. According to Zhang Guobao, former head of China's National  
33 Energy Administration and the key negotiator on ESPO pipeline, the negotiation was a lengthy  
34 and frustrating process, with "one step forward, two steps back" (Downs, 2010 & 2018). Not until  
35 April 2009, three months before the completion of the Kazakh-China pipeline, did Russia finally,  
36 conclude a \$25bn worth of loan-for-oil deal with China. Under the contract, the China  
37 Development Bank would lend Russia's state energy companies the funding in need to build and  
38 operate a 67km branch line from Russia's Skovorodino to Chinese border city Mohe; and CNPC  
39 committed to building a 927km pipeline from Mohe to the refineries located in Daqing. Russia's  
40 Rosneft also agreed to supply 300mts of oil through the pipeline over a 20 year period. On 1  
41 January 2011, the Russian-China oil pipeline became commercially operational, with an annual  
42 capacity of 15mts of oil delivery until 2030 (Weitz, 2011).  
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53 In June 2013, Rosneft and CNPC signed another agreement on expanding the pipeline's annual  
54 capacity to 31mts from 2018, and further reached a MoU in October on building a joint venture in  
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Russia’s Far Eastern, each holding a 51% and 49% share. Rosneft also agreed to supply China’s Sinopec 200,000 bpd of crude oil for 10 years, starting from 2014 (*S&P Global*, 2014, February 7). In August 2016, CNPC started construction on the second ESPO branch line in parallel to the Mohe–Daqing pipeline, which began commercial operation on 1<sup>st</sup> January 2018. The new line boosted Russian oil exports to China by 19.7% in 2018, totalling 71.5mts, making Russia China’s top oil supplier for the third year consecutively (*GT*, 2019, March 24). In the first five months of 2019, China’s oil imports from Russia were again up 9.8% from a year ago, to 30.54mts, after an 80% decline of the U.S. crude imports amid the U.S.-China trade tensions, although no extra tariffs were put on U.S. oil thus far (Meng & Chen, 2019, June 25).

In summary, the Kazakh-China oil pipeline has not only helped Kazakhstan break Moscow’s monopsony, but also enhanced China’s security of oil supply and CNPC’s presence in Kazakhstan. The closer Sino-Kazakh energy bond has as well compelled Russia to revisit its position over the ESPO branch pipeline to China, as it wished to keep China as an important customer. On the other hand, however, the changed pipeline map has drawn China further into the geopolitical games in Central Asia, imposing greater challenges to Russia’s overall dominance in the region. Thanks to the SCO that served as a coordination mechanism, the competition between China and Russian over Kazakh oil has not led to bilateral rivalries; and Beijing’s stronger economic potential might also have enabled its more prominent existence in Central Asia.

**4. China’s Energy Cooperation with Turkmenistan**

Turkmenistan is the second-largest natural gas producer among the Commonwealth of Independent States (CIS), after Russia, with 19.5 trillion cubic metres (tcm) of proven reserves at end of 2018 (against 2.5tcm in 1998) (BP, 2019, p. 30). Yet Turkmenistan had no export routes on its own, as its gas exports was dominated by Gazprom not only in the Soviet era but also after its independence in 1991. Gazprom would normally allocate quotas for Turkmen gas exports and charge them transit fees. If there were any disputes, Moscow would close its transit exit for Turkmen gas (Puoketrader, 2016, August 4). Therefore, the post-independent Turkmenistan has pursued a “neutral foreign policy” with the aim to develop multiple export routes to break the Russian monopsony. Shortly after its independence, Turkmenistan agreed with Iran to build a gas

pipeline which was completed in 1997, and a second one was launched in 2010 as well. Although Iran has large oil and natural gas reserves of its own, they are not located in the densely populated northeast of the country, while Turkmen gas supply from north of Iran had provided an easy solution for the problem (Shlapentokh, 2017). Turkmenistan also targeted China for a gas pipeline around the time, but it took much longer to materialize the project due to a longer distance, more transit countries and greater cost involved.

#### **4.1 Initiation of the Turkmen-China Gas Pipeline**

The Turkmen-China gas pipeline was initiated by Turkmen president Saparmurat Niyazov (1991-2006) during his first visit to China in 1992, but the progress was slow thanks to the high cost and the deteriorating relationship between Turkmenistan and its Central Asian neighbours. The only advancement was a MoU signed on petroleum cooperation during President Jiang Zemin's visit to Turkmenistan in 2000, which allowed CNPC to conduct exploration and service work in the Kumdag oil field in western Turkmenistan – the first time a foreign company was granted the rights to conduct onshore exploration. Sinopec was also allowed to conduct drillings at the oldest Shatlyk gas field on the right bank of the Amu-Darya River (see Map 3) (Cutler, 2015).

#### **Insert Map 3 here**

However, three key issues were on the way of the pipeline project. First of all, the political risk. The proposed 6,700km gas pipeline (see Map 4) would go through three countries before reaching China: 188km through Turkmenistan, 530km via Uzbekistan, 1,300km passing Kazakhstan and then running 4,700km on the Chinese territory. Since the newly independent countries were still under economic and social changes, there could be higher political risks and vulnerability caused by transit powers (Stevens, 2000; *Interfax China*, 2008). The second hurdle was the uncertainty of Turkmen capacity to fulfil its promised gas supplies to both Russia and China. According to a long-term contract signed with Gazprom in April 2003, Turkmengaz was to supply gas for 25-years, with 5-10bcm in 2004-2006, 60-70bcm in 2007, and 70-80bcm from 2009 onwards. But the Turkmen gas production was only 62bcm of in 2006, it was unlikely for Turkmenistan to fulfil its obligations without increasing gas production substantially (Puoketrader, 2016; *BP*, 2008). The last but most important issue was the unstipulated gas price. Given the unusual length of the



pipeline, Beijing was hesitate to firmly commit to the pipeline project without a favourable price guaranteed by Ashgabat.

**Insert Map 4 here**

A breakthrough took place in April 2006 on President Niyazov’s third official visit to China, when the two parties sign a “general agreement” on building a cross-border gas pipeline. Under which China would purchase 30bcm/year of Turkmen gas for 30 years, starting from 2009, and the two sides would also jointly explore and develop “all deposits” on the right bank of the Amu-Darya River. Should additional volumes of gas be required to meet the commitment, Turkmenistan promised to “guarantee” supplies from other gas deposits in the country (*BBC Monitory*, 2008, July 3). President Niyazov was delighted to see the progress and called the deal “a modern version of the Great Silk Road, which has connected our countries since ancient times”. He also told the cabinet that the pipeline would allow an eastbound route for Turkmen gas export, and boost the Turkmen economy by 40% upon completion. China was equally excited by the development, not least that the negotiations with Russia over a gas pipeline since the mid-1990s had gone nowhere by then (Šír & Horák, 2008; Lelyveld, 2011, December 5).

Nonetheless, the unexpected passing of President Niyazov due to a heart attack, on 21 December 2006, triggered new concerns in China about the fate of the pipeline (*Sina.com*, 2006, December 30), while Moscow was quick to lure Turkmenistan to “stay with Russia”. When the new Turkmen President Gurbanguly Berdymukhamedov assumed power on 14 February 2007, for instance, Moscow reacted swiftly by inviting him for an official visit on 10 – 11 of April. A month later, President Vladimir Putin paid a return visit to Ashgabat for a summit meeting with his Turkmen and Kazak counterparts, to discuss a pipeline plan to carry Turkmen gas through Kazakhstan and Russia to Europe. As the pipeline could “lock Turkmenistan and Kazakhstan into a gas alliance to improve the gas- and oil- transport infrastructure along the eastern shore of the Caspian Sea to Russia”, Putin’s trip was viewed “as a victory for Russian energy policies towards Central Asia.” (*RFE*, 2007, May 11) A commentary in China’s *Business Times* also noted that Gazprom had offered Turkmenistan a new price of \$100 per 1,000m<sup>3</sup> for its gas supply, while Kazakhstan requested for \$160 per 1,000m<sup>3</sup>. If the Kazakh price were to be applied, China would have to face new challenges in settling gas prices with Turkmenistan (*BT* 2007, May 19).

#### **4.2 The Pipeline Project Under the New Turkmen Leadership**

Beijing's concern was soon eased by President Berdymukhamedov's official visit on 17-18 July 2007, when he received a warm welcome from Chinese President Hu Jintao. The two leaders signed a joint communique reiterating their willingness to develop political and economic ties, and Berdymukhamedov reassured Hu that his government would remain committed to combat the "three evils" – terrorism, separatism and extremism – and the pipeline project would be pursued according to plan. On 29 August 2007, finally, construction of the Turkmen-China gas pipeline was launched at Bagtyyarlyk area in Lebap Region, where CNPC was granted a license for gas exploration and production. President Berdymukhamedov attended the inaugural ceremony and offered Beijing a favourable price at \$90 per 1,000m<sup>3</sup> for Turkmen gas supply, less than what Gazprom paid through 2009 (*TW*, 2007, July 18). China also took this opportunity to inform him that both Kazakhstan and Uzbekistan had agreed to be transit countries. In December 2007, CNPC again announced that it would invest CNY16bn (\$2.16bn) to fund the pipeline construction, and that its subsidiary China National Oil and Gas Exploration and Development Corp. (CNODC) would be responsible for the building work, jointly with two state-owned companies in Kazakhstan and Uzbekistan (*Xinhua*, 2007, December 29).

Unhappy to see China becoming a new customer for Turkmen gas, Moscow was said to have done everything possible to torpedo the Turkmen–China gas pipeline. In November 2007, Gazprom offered a higher price for Turkmen gas supply at \$130 per 1,000m<sup>3</sup> in the first half of 2008, and \$150 July-December 2008 (Mityayev, 2007, December 3). A deal was also inked between Gazprom with Kazakhstan and Turkmenistan on 20 December, following President Putin's proposal in April, over the building of a gas pipeline along the Caspian Sea coast. It was to be completed by 2010 with a designed annual capacity of 20bcm of gas supply for European markets. Earlier in August, Putin also ignored Chinese appeal at the annual SCO summit in Bishkek (Kyrgyzstan's capital), that SCO member states should "take advantage of their economic complimentary and geographic affinity to maximise their economic development," the code-words for energy cooperation. According to a commentary of the *The Strait Times*, the Russians actually "hoped to use the SCO as a framework for limiting Chinese penetration in a region which they consider within their sphere of influence." (*ST*, 2007, August 18)



Beijing had no options but to follow suit. In January 2008, CNPC’s subsidiary PetroChina signed a “benchmark” agreement with Turkmenistan, to pay \$195 for its gas supply per 1,000m<sup>3</sup>, plus a \$50 fee for transporting the gas to Western China. Analysts viewed the move as an indication that China was “willing to pay international market prices for the cleaner fuel”, but also “a signal to Russia that China is not solely dependent on it for gas.” (*Interfax China*, 2008). On 14 December 2009, construction of the 1,833-km Central Asia-China Gas Pipeline (CAGP, Line A) was completed, finally, and the celebration ceremony was opened by Chinese President Hu Jintao, Kazakh President Nursultan Nazarbayev, Turkmen President Gurbanguly Berdymukhamedov, and Uzbek President Islam Karimov (*Xinhua*, 2009, December 14). In October 2010 and May 2014, two parallel CAGP Line B and Line C also became operational, making the Turkmen gas delivery to China totalled 28-29 bcm annually (CNPC, 2017, July 15). When Russia and Iran stopped importing Turkmen gas in 2017, China again increased its gas imports from Turkmenistan, to 31.7bcm in 2017 and 33.3bcm in 2018 (*BP*, 2018, p. 34; 2019, p. 41). This not only allowed Beijing to speedy its process of moving away from coal, but also helped Turkmenistan avoid a potential revenue crisis upon losing two major customers (Bhutia, 2019, February 4).

**Central Asia Under the Belt and Road Initiative (BRI)**

Proposed by President Xi Jinping in 2013, the BRI consists primarily of the *Silk Road Economic Belt*, linking China to Central and South Asia and onward to Europe, and the *New Maritime Silk Road*, linking China to the nations of South East Asia, the Gulf Countries, North Africa, and on to Europe (Umbach, 2019). Given the grand coverage and objectives, BRI was called as China’s “Marshall Plan” that sought to promote its “Asia Dream” and to “reshape the world”; some even viewed it as China’s “New Great Game” in the old Eurasian Heartland (Callahan, 2016; Yu, 2017; Chen and Fazilov, 2018). Responding to these doubts, Chinese President Xi Jinping held that the BRI was neither a foreign assistance scheme like the “Marshall Plan”, nor an instrument of geopolitics, but was simply a platform for multilateral cooperation aimed to build “the community of human destiny” (*Xinhua*, 2018, September 6). Regardless the definition, BRI is truly the most ambitious foreign policy initiative China has ever pursued in modern history, with an estimated \$1 trillion of investments to be made on hundreds of infrastructure projects around the world (Mauk,

2019, January 30). In order to facilitate implementations of the BRI, China has established a state-run Silk Road Fund, on 29 December 2014, with a total capital of USD 40bn and CNY 100bn. The Fund aims to provide “investment and financing support for trade and economic cooperation and connectivity” under the BRI framework, with four shareholders: the State Administration of Foreign Exchange (65%), the China Investment Corporation (15%), the Export-Import Bank of China (15%), and the China Development Bank (5%) (*Silk Road Fund*).

In January 2016, Beijing again launched the Asian Infrastructure Investment Bank (AIIB), “with a mission to improve social and economic outcomes in Asia”. As of end of September 2019, the AIIB has got 100 approved members and nearly \$100bn pledged capital, accounting for 78 per cent of the world’s population and 63 per cent of the global GDP. Since Beijing holds enough of the bank’s voting rights (26.7%) to block decisions that require three-quarters approval, the AIIB is also labelled as “China’s World Bank” (AIIB.org; Curran, 2018, August 6). China has so far signed cooperation agreements with 126 countries and 29 international organisations, to develop inter-connectivity of infrastructure, including ports, highways, railways and pipelines to increase China’s economic and foreign policy impact. By April 2019, 36 projects had been approved by AIIB involving a total of \$30.12bn investments, and \$7.94bn were AIIB loans. Among which, Tajikistan has got two approved projects, on the Nurek Hydropower Rehabilitation and the Dushanbe-Uzbekistan Border Road Improvement. Uzbekistan has got two projects as well, on Railway Electrification (Bukhara-Urgench-Khiva) and Bukhara Region Water Supply and Sewerage, both pending for approval. On 28 November 2019, AIIB signed a MoU with the Kazakh Energy Ministry to enhance the investing environment for renewable energy in Kazakhstan, and one project under consideration is to build a 100MW wind power plant in Zhanatas (AIIB.org; Curran, 2018, August 6). Undeniably, Kazakhstan has been the most enthusiastic party among the Central Asia nations to embrace Beijing’s BRI ambition, by referring itself the “buckle” of the scheme and linking it to its own development programmes.

### **The Sino-Kazakhstan Cooperation in the BRI Era**

Kazakhstan enjoys a key position in the BRI economic corridors between China and Europe and China to West Asia (Umbach, 2019). Even before the BRI was initiated, President Nazarbayev had already proposed, in May 2012, to make Kazakhstan the largest business and transit hub of

the Central Asian region and a unique bridge between Europe and Asia, in order to revive the old Silk Road routes (Higgins, 2018, January 1). He also made various efforts to weaken the Russian influence in Kazakhstan, such as creating a non-Cyrillic alphabet for the Kazakh language and systematically shifting official media programming away from Russian and into Kazakh, while China and the United States were regarded as alternative partners (Wasserman, 2019, March 26). Therefore, soon after the launch of the BRI, President Nazarbayev announced his \$9bn national development programme *Nurly Zhol* (Bright Path), in November 2014, seeking to build or upgrade 7,000km of roads and 4,000km of railways. Amid the blow of collapse of oil prices since mid-2014, China was naturally viewed as a lifesaver with new capital inflows and technologies required by the plan (Bitabarova, 2018; Russell, 2019). On his visit to China in August 2015, President Nazarbayev successfully persuaded Beijing to align the *Nurly Zhol* with the BRI, and a joint-working group was established in December 2015, between Kazakhstan’s Ministry of National Economy and China’s National Development and Reform Commission (NDRC), to synergizing the two nations’ development strategies. In September 2016, the two governments again inked a deal prioritising three sectors for cooperation: transport infrastructure, trade, and manufacture (Bitabarova, 2018).

During President Xi Jinping’s visit to Kazakhstan in June 2017, 24 additional deals were reached worth over \$8bn, in the fields of energy, agriculture and infrastructure. A year later, Kazakhstan launched a new financial hub, the Astana International Financial Centre (AIFC), aiming to become a Luxembourg-style intermediary between large nations and a gateway for foreign investment across Central Asia. China again granted support by making the Shanghai Stock Exchange (SSE) and the Silk Road Fund (SRF) as shareholders of AIFC’s Astana International Exchange (AIX), and also allowed AIX to use RMB for trade and settlement (*Reuters*, 2018, July 5). In September 2018, at a visit by Kazakh First Deputy Prime Minister Askar Mamin to Beijing, the two governments agreed on 11 new projects worth of \$1.9bn. The bilateral trade also reached a new high in 2018 to nearly \$100bn, making China Kazakhstan’s Number Two trading partner, second only to the European Union. Against a more comprehensive and proactive cooperation, many have viewed Kazakhstan as China’s ally with the BRI rather than merely a supporter (Altynsarina, 2018, September 27; Bitabarova, 2018, p. 160). However, the affirmative position towards Chinese investments held by political and business elites was not always shared by the Kazakh public, often

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3 due to the lack of detailed information or stereotypes about China, like what happened with  
4 agricultural cooperation (Dave, 2018; Bitabarova, 2018, p. 168).  
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8 Being the world's No 8 wheat exporter but with an under-developed agriculture sector, the Kazakh  
9 government has longed to enhance agricultural development to help diversify its oil-dependent  
10 economy. In 2010, Astana decided to lease one million hectares of farmland to Chinese investors,  
11 but had to abandon the plan shortly due to public protests (*GAI*, 2016, May 9). In 2016, again,  
12 when the government planned to extend the lease of farmlands by foreigners from 10 to 25 years,  
13 it sparked the largest public demonstrations since Kazakhstan's independence. Protestors were said  
14 to fear of the influx of the Chinese and their "harmful environmental practices", but many also  
15 admitted that they had little information of the details of the new law. In order to obtain public  
16 acceptance, the Kazakh Deputy Agriculture Minister Gulmira Isayeva had to explain, in May 2016,  
17 that the potential Chinese investors would not be allowed to own Kazakh lands, and that they could  
18 only invest in the processing of agricultural products in partner with Kazakh counterparts  
19 (Bitabarova, 2018, p. 167; *GAI*, 2016). China and Kazakhstan also conducted several pilot projects  
20 to demonstrate the benefits of agricultural cooperation. In July 2017, seven new agreements were  
21 signed, worth of \$160m, during the Kazakh-Chinese Agriculture Investment Forum in Astana, and  
22 a MoU was reached as well aiming at creation of a model zone of agricultural cooperation (*Xinhua*,  
23 2017, June 10). These activities had helped Kazakhstan to access the Chinese agriculture market  
24 and also promoted people-to-people interactions between the two nations, making agriculture  
25 another important sector for bilateral cooperation. In an interview with the *Xinhua News Agency*  
26 in May 2018, President Nazarbayev highlighted the benefit of the bilateral agricultural cooperation,  
27 which allowed their trade of agricultural products to increase 20% in the past five years (Jiang,  
28 2018, August 29).  
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45 Another Kazakh flagship project that directly benefited from the BRI scheme was the "Dry Port"  
46 located in Khorgos. Occupying 129.8 hectares of land, the project was proposed by President  
47 Nazarbayev in November 2011, to build an Eastern Gate Special Economic Zone in the Kazakh  
48 part of Khorgos. The "Dry Port" has a capacity to hold 18,000 containers and seven gantry cranes  
49 that will allow horizontal transfer of containers between different rail tracks, and also has logistics  
50 zones and industrial zones. With the birth of BRI in 2013, President Nazarbayev seized the  
51 opportunity to further reduce reliance on Russia, by linking the "Dry Port" with BRI as a transit  
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3 hub (Wasserman, 2019, March 26; Saunders, 2019, April 18). Since the inaugural train passed  
4 through the “Dry Port” in 2015, China has obtained great benefits from the shortened journey to  
5 Europe in about 14 days, faster than the 40 days of cargo transport by sea and cheaper than the air  
6 transportation. According to Zhaslan Khamzin, CEO of the Khorgos Gateway, “in a few years  
7 Khorgos Gateway will be the largest dry port in the world” (Mauk, 2019, January 30).  
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13 On 19 March 2019, the 78 years old Kazakh President Nazarbayev resigned unanticipatedly, who  
14 had run the country since 1989 when it was still a Soviet Republic (Cheang, 2019, March 22). But  
15 the power transition has brought little policy changes so far under the new President Kassym-  
16 Jomart Tokayev, who was loyal to Nazarbayev and even suggested a new name – Nursultan – for  
17 the capital city Astana in April to honour the former leadership. When meeting with President Xi  
18 Jinping in Bishkek on 14 June 2019, President Tokayev reiterated that developing relationship with  
19 China remained a priority in Kazakhstan’s foreign policy, echoing President Xi’s call for  
20 deepening alignment of the BRI and *Nurly Zhol* strategy to benefit the two countries and the region  
21 (*Xinhua*, 2019, June 14). Earlier in March, Foreign Minister Beibut Atamkulov also emphasized  
22 that Kazakhstan would be “an indispensable player in the BRI”, and was committed to working  
23 with China “to turn the (Khorgos International) centre into an economic driver of the region”  
24 (Atamkulov, 2019, March 28).  
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34 Of course, the Kazakh projects linked to BRI were not free from challenges, and the Light Rail  
35 Transportation (LRT) project in Nursultan was a recent example. Sponsored by the China  
36 Development Bank (CDB) with a loan worth of \$1.9bn to Kazakhstan’s state-owned Astana LRT  
37 in 2015, the project was aimed to build a light-rail system in Kazakhstan’s capital city by 2020.  
38 Astana LRT hired a consortium of Chinese companies to carry out construction on the light-rail  
39 network, but then deposited the funds in Bank of Astana instead of using them for LRT  
40 construction. When the Bank of Astana went bankrupt with license revoked by the central bank,  
41 the liability for the deposit was transferred to the Finance Ministry’s Problem Loan Fund, CDB  
42 then had to stop financing the project in October 2018. Kazakhstan has pledged to repay CDB in  
43 line with the loan agreement, and the Problem Loan Fund has reportedly released 3.3bn tenge  
44 (\$8.6m) to Astana LRT to pay the contractors in February 2019 (Gizitdinov, 2019, June 3).  
45 However, construction was soon frozen in April amid reports of mismanagement and fraud, and  
46 the viability of the project was also questioned: the designed rail capacity was for 146,000  
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passengers daily, but there were only 2,000 passengers travelling between the airport and the new train station every day, which meant great risk of unprofitability (Umirbekov, 2019, October 11). In order to avoid similar financial risks, some Kazakh companies, such as the Kazakh national rail company, Temir Zholy, who was engaged with the Dry Port projects, had sold a 49% stake of the Dry Port operation to two Chinese companies in 2017. Ben Mauk, a correspondent from the *New York Times*, held that such an arrangement would be helpful for Kazakhstan to avoid a one-sided project, although “it’s very unlikely that what happened in Sri Lanka will happen here (Kazakhstan)” (Mauk, 2019, January 30).

There has also been issues relating to political relationships between China and Kazakhstan, especially over the reports of China’s mass detention of Muslim minorities in Xinjiang. There was no doubt that Xinjiang’s stability and prosperity were crucial for China’s boundary safety and domestic politics, which drove China to enter Central Asia more than two decades ago. With the BRI ambition, Xinjiang’s geopolitical position is even more essential, being the gateway to Central and South Asia. What concerned Beijing the most this time was the exigent political climate in Xinjiang since 2009, especially after the outbreak of Syrian civil war in 2011, when thousands of Uighurs who moved to Syria to fight for militant groups returned to China, and sparked a number of terrorist events, including those in Urumqi (July 2009 & April 2014), Beijing (October 2013) Kunming (March 2014). Since 2016, the Chinese government has reportedly detained more than a million of Muslims, mostly Uighurs, in re-education camps, which were called by Chinese officials as “vocational education and training centres”, to help prevent violence. It has been claimed that Xinjiang and other Chinese cities have not experienced any terrorist attack since December 2016 (*Japan Times*, 2019, April 28; Maizland, 2019, April 11).

Beijing’s approach has been criticised by human right groups and Western governments. On 10 July 2019, for instance, 22 Western governments issued a joint statement condemning China’s mass detention of the Xinjiang Muslims. However, Beijing contested such criticisms and attempted to gain supporters elsewhere. Two days later on 12 July, Beijing gathered 37 UN ambassadors from developing countries to sign a letter praising its policy, claiming that “China has made Xinjiang safe and happy”. China’s Central Asian allies, including Russia, Turkmenistan and Tajikistan were among Beijing’s supporters, but Kazakhstan has kept silent (Liu, 2019, July 14). Some believed that Chinese investments had constraint Kazakhstan’s position in responding

to the issue (Mauk, 2019, January 30), but others argued that the Kazakh authority had taken a quiet diplomatic approach: rather than calling for Kazakh ethnics back “home”, like what happened in the 1990s, Kazakhstan now focused on protecting its own citizens and their families, with Mrs Sairagul Sauytbay and her family being the latest example. As an ethnic Kazakh Chinese but married with a Kazakh citizen, Mrs Sauytbay escaped from a detention camp in Xinjiang in 2018 and entered Kazakhstan illegally. She was then arrested in May at Beijing’s behest and was convicted, in August 2018, by a Kazakh court as crossing the border illegally; her asylum request was denied as well. Yet the Kazakh court also refused to order her deportation back to China but instead allowed Mrs Sauytbay and her family to leave for Sweden, on 3 June 2019, to seek asylum (Putz, 2019, June 3; *Japan Times*, 2019, April 28).

Apparently, Nursultan disagreed with Beijing’s handling of the Xinjiang Muslims with whom Kazakhstan shared close ethnic bonds, but has restrained its response in order to avoid antagonising China. According to latest information published by the Kazakh government in September 2019, Beijing has invested US\$27.6bn in 55 projects in Kazakhstan, among which 15 have already been implemented, 11 are under construction and 29 are in planning. Approximately half of the investments are in oil and gas, while the rest are in mining and ore processing, machine manufacturing, food production and wind and solar farms (Simonov, 2019, October 29). For the time-being, the Sino-Kazakh relationship has progressed well thanks to their mutual needs and shared strategic interests. China wants to keep Kazakhstan as the transit hub for its RBI scheme, and Nursultan cannot afford to lose Beijing’s financial support to its economic development either. But economic power alone cannot if China wants to keep a sustainable relationship to please both the Kazakh elites and the public, it may need to pursue a more liberal approach to formulate more appealing soft power to the outside world. In contrast to the Kazakh stories that featured mostly with positive notes, the fourth CAGP line to bring Turkmen gas to China – Line D, however, has been less positive and its fate remains yet unpredictable as well.

**5.2 CAGP Line D and the Power of Siberia**

Line D is a major energy project proposed under the BRI (see Map 5), with an agreement signed on President Xi’s visit to Central Asia in September 2013. The necessity of a new gas pipeline lay in China’s attempt to improve the country’s environment and fulfil its climate change pledges,



which led to a 15-18% annual rise in its gas demand over the past decade, and the CAGP system – with three pipelines already built – was rapidly running out of capacity. The 1,000 km Line D has taken a different route from the other three, through Uzbekistan (200km), Tajikistan (410km) and Kyrgyzstan (215km), and is to carry 25-30bcm of Turkmen gas per year to China upon completion. Line D construction of the Tajik section was launched on 13 September 2014, with Tajik President Emomali Rahmon and visiting Chinese President Xi Jinping attending the ceremony (NT, 2018, January 31).

### **Insert Map 5 here**

However, the project has been accompanied by many misfortunes thanks to the problematic rationale behind. On the one hand, Line D was supposed to help Beijing avoid excessive reliance on the Kazakhstan route and to diversify transit routes via going through Tajikistan and Kyrgyzstan; but this has not enabled Beijing to diversify the source of gas supply from Turkmenistan. For instance, during the winter 2017-18, the CAGP gas volumes dropped by half due to “frequent equipment failures” in Turkmenistan, while LNG supplies from Uzbekistan and Turkmenistan were also sporadic. China was then compelled to increase LNG imports extensively elsewhere, causing LNG prices soaring to record highs. Analysts believed that this was a way for Turkmen and Uzbek governments to press China for better prices, and was also driven by Turkmen resource nationalists in the name of diversifying export routes (Hedge, 2018, February 17; Liu, 2019, March 27). On the other hand, the two transit countries – Tajikistan and Kyrgyzstan – both relied on oil and gas imports, yet they would not get gas supply from Line D but only receive transit fees and taxes. Therefore, “The economic justification for Line D was always dubious”, as held by Edward Chow from the Center for Strategic and International Studies in Washington, DC. (Collins & White, 2013, June 5; RFA, 2017, March 20).

Unsurprisingly, the completion date of Line D has been delayed repeatedly, from 2016 to 2020, and now to 2022. There has also been disputes between Kyrgyzstan/Tajikistan and Chinese companies over the formation of a joint venture to build and operate the pipeline, and over the pipeline routes in both countries (NT, 2018, January 31; RFE, 2017, March 6). On 2nd March 2017, CNPC and Uzbekneftgaz announced that the Line D construction on Uzbek territory would be postponed indefinitely, leading to speculations that China would abandon the project altogether.



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But soon in December 2017, the Kyrgyz government announced that the Line D work would be resumed in 2019, and construction in Tajik section was also said to be resumed in January 2018 (Pannier, 2018, April 27). Uzbekistan was reported to have a discussion with the Chinese over resuming the Line D work, but no substantive action has shown so far, as the Uzbek leadership was believed nervous of China’s huge BRI (*bne IntelliNews*, 2019, June 3). Therefore, whether Line D can become operational by 2022 still remains to be seen.

However, the setback of Line D did not seem to bother Beijing greatly, because of the new developments of two other sources: the Turkmen gas via the rest CAGP lines, and the Russian gas via the “Power of Siberia” pipeline. Despite the brief supply disruption in 2017, Turkmenistan had every reason to keep the Chinese market, in particular, after Moscow sharply reduced importing its gas in 2015 and stopped the imports in January 2016, over a dispute regarding gas payments. In early 2017, Turmengaz suspended gas supply to Iran as well over a contract dispute (Lelyveld, 2018, October 29; Mackenzie, 2015, July 24). This left China the sole consumer, who imported 31.7bcm of Turkmen gas in 2017 and 33.3bcm in 2018, equivalent to 15% of its total gas consumption. In April 2019, Gazprom resumed Turkmen gas imports, and a 5-year contract was signed with Turmengaz in July, to have a 5.5bcm of gas supply annually. The amount was rather symbolic than substantive, but analysts believed that the move was driven either by Gazprom’s desire to supplement its own production to boost exports to Europe, or by Russia’s attempt to hamper plans for a trans-Caspian pipeline designed for Turkmen gas to reach Europe via the Southern Gas Corridor (Genté, 2018, December 10; Putz, 2019, July 4). Gazprom was obviously willing to maintain control over the Turkmen gas exports, but it seems too late for it to regain such a control: China now buys nearly 80% of Turkmen exports, which are almost entirely natural gas (Bhutia, 2019, October 6).

In the meantime, China and Russia started revisiting their overdue gas pipeline plan, which was signed in 2009 but had little progress for two main reasons: the pipeline routes and gas prices. The route suggested by Russia was from the Altai region to western China, which would make gas supply to China and Europe from the same fields and, thus, enable Russia to play the role of a “swing producer”. While the Chinese preference was to build a pipeline between Siberia and Northeast China, to avoid potential blame for ‘robbing’ gas from the Europeans, as argued by Keun-Wook Paik, Senior Fellow at the Oxford Institute of Energy Studies (Wishnick, 2014). In

terms of gas price, Moscow demanded that Beijing pay the same as European consumers at \$400 per bcm, but CNPC insisted on \$350 per bcm as it had already made losses on domestic market with regulated gas prices. Eventually, the puzzle was resolved through close political ties between the two leaderships. In June 2013, at President Xi Jinping's inaugural visit to Russia, the two leaders decided to build the "Power of Siberia" pipeline from East Siberia to China (Luhn & Macalister, 2014, May 21; Wishnick, 2014). On 21 May 2014, during Putin's two-day visit to Beijing, Gazprom and CNPC signed a \$400bn contract on Russian gas supply to China at 38bcm annually for 30 years, in the presence of the two Presidents. The 3,000km pipeline would bring gas to China from the Chayanda and Kovykta gas fields in eastern Siberia through Vladivostok (see Map 6). Russia was to invest \$55bn in developing the project, and China agreed to contribute an additional \$20bn. The contract did not reveal the agreed gas price, but it was speculated that Gazprom accepted the CNPC offer, in return for cheap Chinese credit to develop the project. According to Russia's former deputy energy minister Vladimir Milov, faced with Western sanctions in the post-Crimea crisis, "Putin is ready to diversify gas supplies at any expense because he considers it geopolitically important." (Luhn & Macalister, 2014, May 21; Wishnick, 2014)

#### **Insert Map 6 here**

In September 2014, Gazprom launched construction of the pipeline, while the work on Chinese territory also started in April 2017. Completed in March 2019, the Power of Siberia was launched on 2 December 2019 via video by President Putin from Sochi and President Xi from Beijing, respectively, and is expected to supply 38bcm gas to China annually for 30 years. The 3,000km pipeline will not only boost the bilateral "strategic energy relations" as suggested by President Putin, but has also made Sino-Russian relations "a priority" in China's foreign policy, as claimed by President Xi (*FT*, 2019, December 2). As a matter of fact, Russia has become keener than ever before to serve the huge Chinese gas market, and has reportedly started talks with China on building the Power of Siberia 2 since 2015. However, the two sides have yet agreed on a number of issues so far, such as the pipeline route, the financing of the pipeline, and the gas price. As the existing gas fields would not be sufficient to support the 38bcm annual gas supply to China for 30 years, Gazprom had to rely on the giant Bovanenkovskoe gas field on the Yamal Peninsula, far away from the Chinese border. It would also be very expensive to build the pipeline because much of it would have to go through permafrost, where it is tricky to anchor in. The Mongolia option

could eliminate the permafrost challenge but would pose other problems: it would have to be longer to reach China, making it more costly, and adding transit risks ad cost. With the alternative pipelines from Central Asia and Myanmar (12bcm/year), plus a more competitive LNG market globally, China has got more bargaining power than before (Mammadov, 2019, October 14), which may delay the new line for a while until things become workable for both parties.

That said, the Power of the Siberia pipeline is the largest gas project between Russia and China. It has allowed Russia to diversify the sole reliance on the European market, and also enabled China to enjoy multiple sources of gas supply, rather than relying mainly on the Central Asian pipelines. Some viewed the pipeline a “global game changer”, as it forced the world’s biggest energy reserve country and the biggest energy consumer – Russia and China – together, which could have economic and political repercussions Europe and America never predicted (Twisdale, 2018, April 9). Despite the remaining suspicion over the Sino-Russian relations based on their historical geopolitical rivalries, the Power of the Siberia pipeline has been labelled as “a symbol of Moscow’s diplomatic pivot towards Beijing at a time of worsening relations with the west.” (Akita, 2019, July 29; *FT*, 2019, December 2)

**5. Conclusion**

China entered Central Asia in the late 1990s, using energy diplomacy as an instrument to serve its purpose of national security. Although energy security soon became China’s main engagement with the region, politics had never vanished from the scene. Therefore, it could be fair to argue that geopolitics had coloured China’s dealing with the region from the beginning, regardless of its real intention, and the establishment of the SCO in 2001 indicated Beijing’s involvement in the grand games formally. Over the past couple of decades, Chinese national oil companies have established a strong profile in the region despite the defiance from Western and Russian oil majors, and have built several cross-border oil and gas pipelines, jointly with their Central Asian counterparts. The changed pipeline map allowed the main energy-producers, such as Kazakhstan and Turkmenistan, to break off the long-lasting monopsony by Moscow, but had also drawn Beijing further into the geopolitical games in Central Asia while enhancing its energy supply. Eventually, China’s view on regional stability in Central Asia and its own role had also changed. At a media event of the SCO summit in 2012, for example, Chinese Deputy Foreign Minister

Cheng Guoping claimed that, “The peace and stability of Central Asia is related to China’s core interests, we will not allow the unrest in West Asia and North Africa to spread to Central Asia,” referring to the threat of Arab-style upheavals (Baculinao, 2012, June 7). Up to this point, the term “core interest” was only used to refer to the matters relating to China’s territorial integrity, such as Taiwan, Tibet, and Xinjiang etc.

China’s greater geopolitical presence in Central Asia was unwelcome to the West and was also once viewed by Russia as a challenge to its traditional sphere of influence. Yet being the two most influential powers in Central Asia geopolitically, Russia has eventually accepted China’s new status based on three main factors. Firstly, as discussed above, China’s deeper involvement in the Kazakh and Turkmen energy sectors was not only desired by Chinese NOCs, but was also a policy choice made by the host governments. Secondly, economic disparities between China and Russia has redefined their balance of power in the region. While Russia still holds upper hand on security and political grounds, China has become a leading economic power in the region. In addition to the AIIB, China is the largest donor to the Contingent Reserves Arrangement under the BRICS New Development Bank, with \$41bn donations against \$18bn from Russia (Lain, 2015, July 17). Finally, despite some minor discords – on cross-border pipelines and on whether to establish a SCO Development Bank<sup>1</sup> (Molchanov, 2017, pp. 140 & 144) – the SCO platform has helped facilitate Sino-Russian cooperation over the past 20 years. The post-Crimean sanctions against Russia and the U.S.-China trade war have brought the two countries even closer, as indicated by the Power of Siberia pipeline. This giant gas project has gone beyond the energy arena to drive the two leaders agreeing on developing the bilateral relationship into an “all-encompassing partnership and strategic co-operation entering a new epoch.” (*FT*, 2019, December 2) This kind of statements have rarely occurred since the two countries’ split in the 1960s, but should be good news to Central Asia and the world: as long as Russia and China keep an amiable relationship, few other forces will be able to challenge regional peace and stability in Central Asia.

Beijing’s BRI aspiration has further amplified its geopolitical significance in Central Asia, via a broader policy agenda in the region and by seeking to project influence beyond the Eurasian chessboard. The scheme was supposed to help relevant countries enhance infrastructure and

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<sup>1</sup> The idea was first proposed by Chinese Premier Wen Jiabao in 2010, with China contributing \$10bn for its start-up capital and to be based in Beijing, but was declined by Russia.

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economic development. However, since not all the projects pursued were tailor-made to meet the needs of the parties involved, the BRI scheme has triggered various criticisms including debt traps and governance-related issues. Another feature of the BRI is the pragmatic thinking centred on economic development, which has undermined Beijing’s ability to embrace different political voices, including those from the Muslim groups in Xinjiang. It is evident that despite its growing economic potential, Beijing’s political approaches have not always been consented even by its “SCO allies”; there thus must be a need for China to revisit its positions and to embrace some universally accepted values to its foreign and domestic policies. With greater power potential, Beijing should bear more responsibilities to ensure peace and stability in Central Asia, together with other powers, not only for the sake of BRI’s success, but also for the interest of the mankind.

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Map 1, Kazakh-China Oil Pipeline



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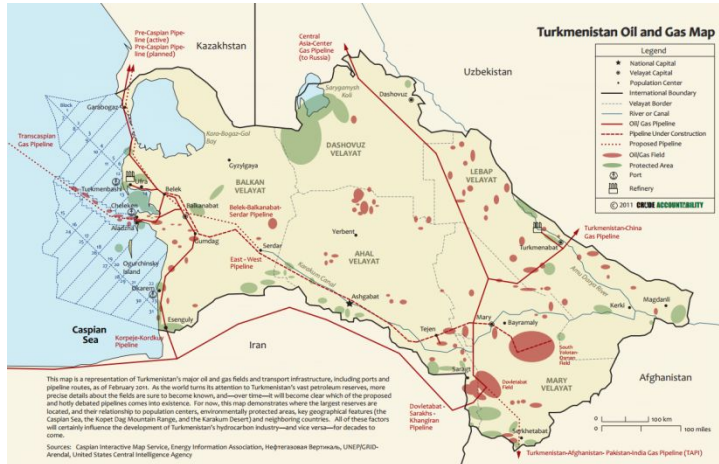
Map 2, Russia – China Oil Pipeline



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### Map 3, Turkmenistan Oil and Gas Map



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Source: R. M. Cutler (2015, February 23). <http://www.eurasiansecurity.com/energy-geopolitics/turkmenistan-pipeline-completing-east-west/>

### Map 4 Turkmen-China Gas Pipeline Line

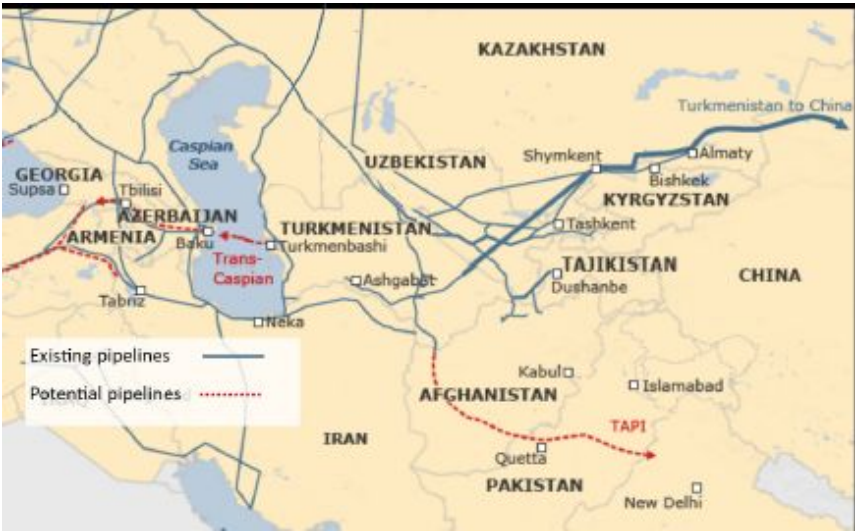


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Map 5, Central Asia-China Gas Pipelines



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Map 6, The Power of Siberia Gas Pipeline



Source: Drawn by Mr Xiaoming Yang.